Capturing the Green Advantage for Consumer Companies
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Capturing the Green Advantage for Consumer Companies

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January 2009

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Note to the Reader

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Acknowledgments
This report is a product of BCG’s Consumer practice and its Center for Consumer Insight (CCI), which provides world-class consumer-insight capabilities to the firm’s clients. Established by the Consumer practice and the Marketing and Sales practice, the CCI leads BCG’s proprietary research for publications on consumer trends and purchasing patterns. As an advisor to companies in many industries, BCG has long recognized the fundamental value of identifying and leveraging insights into consumer behavior, both for strategy development and as a key source of sustainable competitive advantage.

The authors would like to acknowledge the contributions of their colleagues Patrick Ducasse, a senior partner and managing director in BCG’s Paris office and the global leader of the Consumer practice; Matt Anestis, a principal in the firm’s Hong Kong office; Balu Balagopal, a senior partner and managing director in BCG’s Houston office; Mary Egan, a partner and managing director in the firm’s New York office; Emmanuel Huet, a senior manager in BCG’s Paris office and the leader of the CCI; Holger Rubel, a partner and managing director in the firm’s Frankfurt office; Alison Sander, a globalization topic advisor; Jutta Trögel, a consultant in BCG’s Munich office; and Karin Zimmermann, the global manager of the Consumer practice.

The authors also thank Pascal Engel, Anja Schermer, and Sascha Seifert for research and support.

Finally, the authors would like to acknowledge Sally Seymour for helping to write this report and Gary Callahan, Mary DeVience, Kim Friedman, and Gina Goldstein for contributions to its editing, design, and production.

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Introduction

Thanks to unpredictable prices at the pump, energy-saving technologies, and the success of Al Gore and other experts in making us face “inconvenient” truths, consumers around the world are starting to talk about the environment as if they were discussing their own backyards (which, of course, they are). Concerns about the sustainability of resources and the safety of what we put into and on our bodies have become a staple of the mainstream media. As a result, green—the global catch-all term for everything good for the environment—has become a significant factor in where consumers shop and what they buy.

But will consumers continue to care about green issues now that the economy has taken a nosedive? That’s the question companies the world over are asking as they consider their past investments in green strategies and plan for the years ahead. The answer, our research convinces us, is a resounding yes. Consumers and companies have come to accept volatile energy prices as a fact of life, and they won’t be quick to forget the sting of soaring prices in the first half of 2008. Worries about the cost and depletion of natural resources are front and center in everyone’s mind—and budget.

Our research also indicates that consumers greatly value the direct benefits that green products offer, such as superior freshness and taste, the promise of safety and health, and savings on energy costs. In an October 2008 survey on trading-up behavior, The Boston Consulting Group found that more consumers systematically purchased green products in 2008 than in 2007. (See Exhibit 1.) Moreover, more consumers were willing to pay a higher price for green products deemed to be of higher quality. For example, although consumers everywhere are cutting back on big-ticket items in the face of a deep recession, they are reluctant to cut back on organic foods. In fact, when survey participants were asked in which product categories they were willing to trade up, they ranked organic foods 20 on a list of 108 product categories—considerably higher than the ranking of 43 they assigned to the category in a similar survey conducted in 2006. Organic has come to stand for better quality—an affordable luxury that is also good for you.

Of course, the actions a company takes on behalf of the environment must also be good for its bottom line—whether by bringing down costs or by offering product features that attract more consumers. Therefore the continuing expansion of green consciousness around the world presents a huge opportunity for smart companies, and the business case for green remains compelling even—and, in many cases, especially—in a tough market.

At its core, the green movement is about reducing waste and minimizing our impact on the environment. Companies that translate these goals into a holistic approach to offering differentiated green products and bringing down costs across the entire value chain have been rewarded with higher margins and market share.

Nevertheless, producers and sellers of green products still face some challenges. There is considerable confusion around the world about what being green really means. Because the industry lacks clear definitions and standards, some companies have been able to make sweeping and unsubstantiated claims about their environmental credentials. That has caused many consumers to become skeptical about green products, and companies to become wary of offering them. Companies are looking for
business-minded approaches to protecting the environment that consumers will trust. But since consumers’ expectations for green products and production processes differ depending on where they live and the products they buy, companies must discover how targeted segments feel about the environment, what they expect from green products, and what prices they are willing to pay.

In July 2008, BCG conducted its Global Green Consumer Survey to assess green attitudes and shopping behaviors. We surveyed approximately 9,000 adults, aged 18 to 65, in nine countries through online questionnaires sent to respondents in Canada, France, Germany, Italy, Japan, Spain, the United Kingdom, and the United States and—in order to get a sense of the opinions of consumers in emerging markets—through face-to-face interviews in seven major cities in China. Our questions explored consumers’ awareness of environmental issues, their behavior when shopping for green products, their willingness to pay a premium for green products in more than 50 categories, and their perceptions of green retailers and brands. Finally, we interviewed executives at 20 leading consumer companies about their green strategies and experiences.

The results of our research clearly indicate that when it comes to being green, consumers hold companies to a high standard. First, they believe that companies can be more effective than private individuals in acting on green issues, including health and safety, and they expect companies to do so. But consumers are uncertain about exactly what that entails, and they want advice they can trust in evaluating product claims. Second, and contrary to what many managers believe, consumers are willing to pay a little more for some green products—even in times of tighter budgets—if they believe such products are healthier, safer, or better for the environment. Finally, most of the consumers we spoke with consider a store’s green credentials when choosing where to shop—a clear opportunity for savvy retailers.

Still, to attract more green shoppers, both retailers and manufacturers need to improve consumers’ awareness of green products and the choices available. Despite all the media attention the green movement has received, consumers remain unaware of green options in many categories and believe that the choices are limited compared with conventional alternatives. Many consumers, for instance, complain about the “green ghetto” in the supermarket, where a limited assortment of organic products are crowded together in a low-traffic location.

Winning the hearts (and wallets) of green consumers is a wise move for producers and retailers. But going green is not merely a tactic for a single product or a discrete proc-
ess. Rather, companies should strategically employ what we call the four Ps of green advantage: green planning, which incorporates green targets and resources into corporate strategy; green processes, which allow companies to practice what they preach; green product offerings; and green promotion and messages. (See Exhibit 2.) This report provides a window onto how consumers’ perspectives on green products and services are evolving and offers recommendations on how companies can meet their customers’ demands for a greener environment while also meeting their own business requirements.

Exhibit 2. The Four Ps of Green Advantage Employ a Holistic Approach Across the Value Chain

### Planning
- Embedding green targets and resources into corporate strategy
- Planning for and capitalizing on changes on the horizon

### Processes
- Reducing waste in operations
- Encouraging others (suppliers, customers, and employees) to operate in a green way

### Promotion
- Communicating the company’s message on sustainability and green issues
- Talking about green issues with key stakeholders

### Products
- Determining offerings, packaging, and pricing
- Innovating to help consumers live greener
- Knowing which green benefits really matter to consumers

*Source: BCG analysis.*
Consumers around the world are very worried about the environment. In fact, about two-thirds of our survey participants—especially those in France and Italy—said they believed that the environment is in bad shape. More than 80 percent of the Japanese consumers we surveyed claimed that environmental problems are a primary threat to society, while U.K. and U.S. consumers ranked concerns about the environment just below concerns about the current economic downturn. On average, only about 12 percent of consumers said they were skeptical about threats to the environment.

When asked who should address environmental issues, consumers said that they should shoulder some of the responsibility. Nearly half (46 percent) of survey participants strongly agreed that the actions of individuals can help protect the environment. But many seem to hold companies to a higher standard. Fully 73 percent of consumers consider it important or very important that companies have a good environmental track record. (See Exhibit 3.)

We found that the term green is recognized the world over as shorthand for environmental consciousness. Yet when we asked consumers precisely how they define green, their answers varied depending on where they live and the type of product. (See Exhibit 4.) Of course, survey participants everywhere believe that being green entails activities that have a direct and positive impact on the environment, but many also include activities that could be considered a part of social responsibility, such as compliance with fair-trade requirements. Among Italians, for example, excluding animal testing is considered an important component of being green, whereas that factor matters much less to Japanese consumers. Some consumers even believe that handmade or locally grown products qualify as green. The importance of recyclable materials also varies greatly across markets; for example, they are highly relevant in the United States but carry much less weight in Germany.

Although some countries are trying to define green products and businesses more precisely, no clear global standard has emerged yet. Therefore it is critical that companies understand what green means to the consumers in their targeted markets and in specific product categories.

Meeting this goal may be harder than it appears, since consumers are notoriously poor at understanding or communicating the complex motives that drive their behavior. For instance, consumers in our survey who make a point of purchasing green products claimed that they do so primarily for altruistic or health-related reasons—because they care about the environment and want their families to live in a better, healthier, and safer world. Only a few consumers claimed that they purchase green products for other reasons, such as to save money. This finding held true across all the countries surveyed.

Interestingly, when we asked consumers what they are doing for the environment, the most popular of the actions cited save money as well. (See Exhibit 5.) These include turning off home electronics when not in use, recycling or reusing products, using less water, and using energy-efficient appliances and light bulbs. Even more consumers plan to take these steps in the future. In contrast, consumers are not nearly as likely to take less convenient or more costly actions, such as buying a hybrid car. Not surprisingly, many companies have found that the most successful programs to protect the environment are those that also help consumers save money. (See the sidebar “Tesco’s Fashionable Bags.”)
Companies should have a good environmental track record

Companies should provide information on environmental impact

Companies should have high ethical standards

Companies should treat employees fairly

Companies should be involved in social projects

Companies should donate to charity

Important Very important

Percentage of respondents

Sources: BCG Global Green Consumer Survey, 2008; BCG analysis.
Note: Data are from 1,000 responses across all countries in our survey.

Exhibit 3. Most Consumers Think It Is Important or Very Important for Companies to Be Green

Exhibit 4. Consumers Around the World Define Green Differently
Exhibit 5. The Most Popular Green Behaviors Are Also Budget Friendly

What actions will you take to be green, today and in the future?

<table>
<thead>
<tr>
<th>Today</th>
<th>In the future</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turn off home electronics when not in use</td>
<td>Turn off home electronics when not in use</td>
</tr>
<tr>
<td>Recycle or reuse products</td>
<td>Recycle or reuse products</td>
</tr>
<tr>
<td>Use low-energy light bulbs</td>
<td>Use low-energy light bulbs</td>
</tr>
<tr>
<td>Use less water</td>
<td>Use less water</td>
</tr>
<tr>
<td>Bring my own bags to the grocery store</td>
<td>Bring my own bags to the grocery store</td>
</tr>
<tr>
<td>Use energy-efficient appliances</td>
<td>Use energy-efficient appliances</td>
</tr>
<tr>
<td>Use my car as little as possible</td>
<td>Use my car as little as possible</td>
</tr>
<tr>
<td>Purchase locally produced products</td>
<td>Purchase locally produced products</td>
</tr>
<tr>
<td>Improve insulation in my home</td>
<td>Improve insulation in my home</td>
</tr>
<tr>
<td>Buy products without packaging</td>
<td>Buy products without packaging</td>
</tr>
<tr>
<td>Buy fewer products</td>
<td>Buy fewer products</td>
</tr>
<tr>
<td>Spend my vacations at or near home</td>
<td>Spend my vacations at or near home</td>
</tr>
<tr>
<td>Travel less for work</td>
<td>Travel less for work</td>
</tr>
<tr>
<td>Travel by train whenever possible</td>
<td>Travel by train whenever possible</td>
</tr>
<tr>
<td>Buy organic food</td>
<td>Buy organic food</td>
</tr>
<tr>
<td>Drive a more fuel-efficient car</td>
<td>Drive a more fuel-efficient car</td>
</tr>
<tr>
<td>Eat less meat</td>
<td>Eat less meat</td>
</tr>
<tr>
<td>Shop more often at green stores</td>
<td>Shop more often at green stores</td>
</tr>
<tr>
<td>Don’t own a car</td>
<td>Don’t own a car</td>
</tr>
<tr>
<td>Invest in environmentally friendly funds</td>
<td>Invest in environmentally friendly funds</td>
</tr>
<tr>
<td>Own a hybrid car</td>
<td>Own a hybrid car</td>
</tr>
</tbody>
</table>

Percentage of respondents

Sources: BCG Global Green Consumer Survey, 2008; BCG analysis.
Note: Data are from 8,047 responses across all countries in our survey, excluding China.

Tesco’s Fashionable Bags

Customers at Tesco grocery stores in the United Kingdom were happy to purchase reusable shopping bags when the company began offering at least one Green Clubcard point for each bag used, depending on its size. (Green Clubcard points have the same value as regular Clubcard points but are awarded for actions that benefit the environment.) And customers don’t have to use Tesco’s bags to rack up points: they get credit for using bags from other retailers, too.

Since the program was launched, in August 2006, customers have used 2 billion fewer disposable bags. Preferring carrots to sticks, Tesco doesn’t charge its customers for disposable bags when they forget their own reusable ones (as many other retailers do), because, as one Tesco official explained, “even the most committed greenies occasionally forget to bring their shopping bags with them.” But to reduce those lapses, Tesco sent its Clubcard customers a key fob that carries a reminder to bring their own bags.

Last year, Tesco introduced a line of attractive and affordable reusable shopping bags made from recycled plastic bottles and designed by Cath Kidston—one of Britain’s best-loved designers. The company originally commissioned six designs, but the bags were so popular that it added two more, including one for Christmas. Each bag costs £3.50, of which Tesco donated 50 pence in 2008 to Marie Curie Cancer Care, its charity of the year.

Reusable bags are available at all Tesco stores in the United Kingdom, and the chain is expanding the program to its stores throughout Europe. In Poland, for instance, where customers use 400 million disposable bags each year, it has extended its line of reusable bags to include a jute bag that sells at a rate of 30,000 per month. Tesco also offers smaller carrier bags at stores where customers tend to buy less, such as Tesco Express convenience stores.
For most consumers, green goes beyond shopping behavior. It encompasses nearly everything they do—and how that affects the amount of energy they consume and the amount of pollution they generate. Yet shopping green is increasingly an important way for consumers to act on their commitment to the environment. At least half of our survey participants told us that they buy green products regularly or sometimes. Europeans lead in this behavior, with 54 percent of these respondents reporting that they shop green regularly.

But if shopping green is common, shopping habits vary considerably by product category. (See Exhibit 6.) A slightly larger number of participants in our survey said that they purchase green food products more often than green nonfood products. Most popular in the food category are fresh meats and vegetables, which respondents said taste better than conventional alternatives and can be depended on for higher quality. Indeed, these foods rank among the top three most frequently purchased green products across all countries in our survey. Overall, the percentage of consumers purchasing green products is highest for paper and packaged products (such as paper towels, cleaning products, and trash bags)—a category in which green features are well entrenched, cheap, and convenient. In all nine countries surveyed, 15 to 20 percent more consumers purchase green household cleaners than purchase green products on average—and an even higher percentage of consumers in France and Canada reported buying green cleaners.

There are differences across countries as well, as the popularity of organic chocolate illustrates. In Canada, organic chocolate is 11 percent less popular with consumers than are green products on average. But in Italy, organic chocolate is 4 percent more popular than green products on average. Bottled water ranks among the top five green products in China, Japan, and the United States, but Germans purchase it with below-average frequency. Green appliances, such as energy-efficient cooktops and washing machines, are much less favored in China, where most consumers still wash their clothes by hand and government regulation keeps energy costs relatively low. (See the sidebar “China’s Growing Environmental Awareness.”)

There’s no doubt that consumers all over the world are increasingly choosing in favor of green products, but they are also expecting more from the companies that make and sell those products. The challenge for green-minded companies is to understand which actions will be most meaningful in their categories and for their customers.

Are consumers attracted to green products because they leave a smaller carbon footprint? Because they are healthier and safer? Or because they cost less? In some cases, it’s a combination of two or three features that makes for a big hit. Tesco’s reusable shopping bags are successful, for example, because customers are concerned about both the environment and their pocketbooks—and because the bags are well designed and attractive. Furthermore, companies must be aware that the green qualities that matter in one product, category, or country may not matter—or may not matter as much—in another.
China’s rapid industrialization is having a huge impact on the country’s environment in ways that consumers can see every day. Air and noise pollution have grown more troublesome, especially in urban areas. Pollution of freshwater reservoirs is threatening the water supply of millions of households and the livelihoods of people in rural areas. But as significant as these problems are, they pale before China’s milk scandal, in which thousands of children were sickened by industrial contaminants in September 2008.

The media spotlight on the 2008 Olympic Games brought many of these problems to the attention of the world—and to the attention of Chinese consumers. The government has promised remedies, but environmental regulators have no legal recourse and are seen by many as toothless tigers. Nevertheless, many Chinese consumers are determined to do what they can to help the environment.

There is little incentive to purchase energy-efficient appliances in China because such products cost comparatively more and, in any case, the price of electricity and water is regulated by the government. So purchasing green in China generally means buying fresh foods. And because the penetration of modern trade formats is still very low, the Chinese purchase almost all their fresh food at so-called wet markets, where prices are quite moderate. Wealthier people, however—such as dual-income couples without children—favor natural ingredients at any price and will buy organic foods at hypermarkets, where they are much more expensive.
Who’s Afraid of a Green Premium?

Many companies in the consumer industry believe that higher prices often keep consumers from purchasing green products. According to a manager at one company that participated in our survey, “It’s a no-brainer for most consumers—why pay more? If prices were closer to what they are for conventional products, green sales would be much higher.” But our findings show that price is not a significant obstacle for most buyers. (See Exhibit 7.) In fact, it ranks much lower as a barrier to green purchasing than lack of awareness of green alternatives or a perceived lack of choice. Furthermore, although some consumers, particularly those in China, are unwilling to pay a premium for green products, fully one-third of consumers across all the other countries we surveyed said they would pay 5 to 10 percent more for green products—if they were convinced that the products offered direct benefits.

Of course, consumers’ willingness to pay more depends on a product’s category and perceived benefits. To explore this further, we grouped products into five categories according to how consumers use them:

- Ingestible products, such as foods, beverages, and over-the-counter drugs
- Products applied to the body, such as lotions, cleansers, and creams
- Wearable products, such as apparel and shoes
- Plug-in products, such as appliances and electronics
- Disposable products, such as paper and plastic products and household cleaners

We asked consumers to rate both the quality of green products in these categories and their willingness to pay a premium of 10 percent or more. The results were surprising. Nearly half of respondents in all countries said that green products offer comparable or superior quality over conventional alternatives. (See Exhibit 8.) In the ingestible-products category, about 30 percent of consumers are willing to pay a 10 percent premium or more for fresh meats, seafood, produce, and dairy products—and nearly two-thirds perceive green products in those categories to be superior. (See Exhibit 9.)

Willingness to pay a price premium is also fairly high in the plug-in-products category, with between 20 and 30 percent of consumers open to paying a 10 percent premium or more over conventional offerings for some products. In this category, the money-saving benefit is a powerful motivator of green purchasing. Similarly, for products applied to the body, the perceived benefit of enhanced health fuels price premiums, since green is often a proxy for all-natural and healthier ingredients. In the wearable-products category, 20 to 30 percent of consumers see green products as better than their conventional counterparts, and about the same proportion are willing to pay a premium for them.

The results were somewhat different in the disposable-products category. Here consumers are accustomed to green alternatives and have almost come to expect green attributes as a given. Therefore their willingness to pay a premium for green products is lowest in this category. Green features of disposable products clearly matter a lot and can be a key lever for differentiating the quality and appeal of product offerings—in terms of their safety or ease of use, for example. But disposable products have a limited ability to command a significant premium on
green benefits alone; these attributes are viewed almost as a commodity.

Being green is not a license to charge more. In all the countries we surveyed except China, consumers will pay more for green products, but only if they offer added value. They must taste better, be safer or healthier, or help consumers save money—on energy bills, for instance. (See Exhibit 10.)

But green products need not cost more. Many companies could lower the price of green products by eliminating as much as 16 percent of their own costs. Reducing the amount of product packaging, for example, would permit more products per truck and per shelf at the store, thereby saving on fuel, logistics, and out-of-stock costs.

With better products and lower costs, everyone stands to win—consumers, retailers, and manufacturers alike. This is especially true in an economic downturn.
Price also affects merchandising. Consumers across all countries told us that they want to see more green offerings at the stores where they shop. In many countries, as many as two-thirds of survey participants said they would shop more often at a store if it carried green products, and an even larger proportion said they would buy more green products if they were available.

To facilitate green shopping, retailers must manage the tradeoff between convenience and price transparency. A large majority of the consumers we spoke with would prefer to see green products offered next to conventional products on store shelves, rather than in a separate section. Of course, that arrangement makes price differences more apparent, and retailers fear that consumers could balk. But since many consumers are already prepared to pay more for green features if the product offers added value, and since fewer green products will be sold if they are banished to a separate section, retailers may benefit in the long run from displaying green and nongreen products together.

When we asked consumers to rate the “green competence” of the stores where they shop, the ones they rated highest across several countries included Carrefour, Ikea, Auchan, and Wal-Mart. The top stores in the United States were Whole Foods Market and Trader Joe’s. In Canada they were Loblaw and Ikea. And in the United Kingdom they were The Body Shop and Marks and Spencer. It is interesting that our survey participants ranked price second in terms of these companies’ competencies—further evidence that consumers aren’t as price

Exhibit 9. Consumers’ Willingness to Pay a Green Premium Depends on a Product’s Category and Perceived Benefits

Percentage of green-product buyers willing to pay at least 10 percent more for green products in the category

Percentage of green-product buyers who said that green products in the category are of higher quality than conventional alternatives

Sources: BCG Global Green Consumer Survey, 2008; BCG analysis.
Note: Data are from 1,000 responses across all countries in our survey.
sensitive about green products as manufacturers and retailers might think. Instead they ranked choice and assortment first, suggesting that retailers should focus on educating consumers about the benefits of green products and making it easier to locate green products in the store.
Early all the consumers in our survey reported being confused when shopping for green products and uncertain about exactly what being green means, what benefits it provides, and how to tell if a product is green. Unfortunately, consumers gave manufacturers and retailers a low ranking as sources of trusted information—well below organizations perceived to be independent and objective. When presented with a list of 13 sources of information about green products, most of the survey participants in nearly all countries ranked independent consumer reports as the most credible source, followed by academic and scientific publications, family and friends, and nongovernmental organizations (NGOs) and public-interest groups. Manufacturers were ranked eighth, and retailers were even closer to the bottom of the list.

Yet when we asked consumers how they judge whether a product is truly green, one-half to three-quarters of respondents in each of the countries we surveyed admitted that they rely on product advertisements, although an even greater portion said they are skeptical about advertising claims. Consumers told us they often consult labels, too, even though they don’t always believe them. Survey participants in all countries said they usually assume that a product is green if it carries clear labeling about its environmental impact. Yet only 28 percent said that they understand the differences among various symbols for green certification. And the vast majority of consumers, especially in Europe, consider many certification labels to be misleading. (See the sidebar “USDA Labels for Organic Foods.”)

In fact (as Exhibit 7 shows), lack of good information and lack of awareness of green product offerings seem to be the biggest reasons why consumers don’t purchase green products. When we asked survey participants who said they do not shop regularly for green products why they don’t, 34 percent said they are unaware of green product offerings in the categories in which they shop. Lack of choice (“I’m not satisfied with the range of green product offerings”) and relevance (“I don’t think green issues are relevant in this product category”) were the next most commonly cited reasons for not shopping green. Clearly, retailers and manufacturers have some work to do in making green options and benefits more visible to consumers. It is interesting that price (“I perceive green products as unreasonably priced”) ranks below these factors as a barrier to green shopping.

As expected, the reasons for not purchasing green also vary by category. In financial services, air travel, toys and games, fragrances, and wine and spirits, consumers reported that lack of product awareness and a perceived absence of choices are the main barriers. And even when consumers are aware of green alternatives that they believe offer better quality, they still think there is insufficient choice in many categories. Some worry that if they make a habit of purchasing green products, they will be boxed into limited options. About 8 percent of survey participants said they had stopped purchasing green because of a lack of choice.

We estimate that companies lose, on average, nearly 20 percent of potential purchasers when consumers aren’t adequately informed about their green-product offerings. Some companies are rising to this challenge by improving their advertising of green products and striving to earn consumers’ trust in their green credentials. One popular strategy is to partner with respected NGOs and government agencies for the purpose of solving an environmen-
tal problem. Not only are such partnerships likely to have a greater impact than efforts undertaken by companies on their own, but the company also benefits from the associated publicity and goodwill while avoiding claims of greenwashing. (See the sidebar “Partnering with NGOs.”)

### USDA Labels for Organic Foods

When organic products began to hit the shelves in the 1970s—and for several years thereafter—the efforts of government agencies and NGOs in the United States to certify them created chaos. Both private organizations and individual state governments began to generate their own standards, resulting in overlapping standards as well as countless arguments among labeling agencies about how to certify products containing multiple ingredients.

These varying and conflicting claims forced industry players that wanted access to foreign markets to take on either the costs of private accreditation or the equally steep costs of having their overseas shipments certified one at a time. Finally, the U.S. Department of Agriculture (USDA), with participation from several retailers (including Whole Foods Market), came to the rescue with a single USDA label for all organic foods. The USDA program set standards for organic farming and handling, and its seal may be used only on agricultural products that are between 95 and 100 percent organic (there are penalties for misuse). So far, 10,000 companies participate in the program and 25,000 products have been certified.

### Partnering with NGOs

Unilever provides a good example of partnering for green action. At one time, the company produced a brand of packaged frozen fish, but because overfishing had led to a serious decline of its fishing stock in the 1990s, it feared for the future of its fishing business. In response, Unilever worked with the World Wildlife Fund (WWF) to create the Marine Stewardship Council (MSC), which established what has become the leading global standard for certifying sustainable wild-capture fisheries. To be certified to the MSC standard, fisheries must prove that they do not overfish their stocks, that their fishing practices do not damage the marine ecosystem, and that they have strong management systems in place to ensure compliance.

Initially a WWF project that was jointly funded by Unilever, the MSC became a completely independent nonprofit in 1999. Today the organization certifies 7 percent of the world’s edible wild-caught fish. Many other companies, including Metro, Whole Foods Market, Sainsbury’s, and Wal-Mart, have started sourcing from MSC-certified fisheries.
Green Opportunities

Our research proves that green matters to consumers around the world, and green strategies offer companies and retailers a competitive advantage in product differentiation and cost savings. Many companies understand this and are starting to take action. Indeed, green initiatives have emerged across nearly all consumer sectors, including automobiles, electronics, durables, energy, health care, packaged goods, and retail. Some players have succeeded in harnessing their “greenness” as a real competitive weapon—a path to leaner operations, greater market share, and more attractive brands. Others have encountered bumps in the road that have resulted in higher costs, allegations of greenwashing, and disaffected customers. What separates the winners from the losers is a clear plan for how green the company wants to be. Such a plan calls for a top-down vision and coordination across the value chain—in other words, a holistic approach to going green that enlists every part of the organization: the four Ps of planning, processes, products, and promotion.

We’ve looked across the consumer industry and identified ten best practices for gaining a green advantage. Below we explore each practice, singling out a few companies as exemplars. Needless to say, most of the companies we mention are working on several fronts, not just one or two.

Planning

1. Factor sustainability into strategy, future resources, and budgets. A leading hotel chain in Europe has been tackling environmental issues since 1994 and highlights proactive sustainability as a core value in its mission statement. In 2007, the company announced that it planned to halve its carbon-dioxide emissions by 2011 and eliminate emissions entirely by 2025.

2. Make the rules, don’t just follow them. Joining in industry partnerships with respected certification programs is a smart long-term investment. Many companies are beginning to adopt the standards of a few of these programs. One is the Energy Star label, created by the U.S. Environmental Protection Agency in 1992 to reduce energy consumption and greenhouse-gas emissions from power plants. Some 2,000 manufacturers use the label, which appears on more than 40,000 energy-efficient products at more than 1,000 retailers.

3. Make a clear business case for sustainability initiatives. A consumer-packaged-goods company was able to improve its balance sheet and help protect the environment through changes made to one of its household-cleaning products. By shrinking the product’s midsize container by two-thirds and greatly increasing its concentration, the company was able to lower production costs for water, cardboard, and resin; reduce logistics costs through more efficient warehousing; decrease the number of trucks needed to carry the product; and increase sales through reduced out-of-stocks and improved shelf efficiency. These moves increased profits by about 16 percent.

Processes

4. Go green across the full value chain. Consumers have wide-ranging expectations for green businesses, and they—and their national governments—are likely to grow even more demanding over time. These facts
should spur companies to go beyond discrete, one-off responses—a switch to recycled packaging, say, or the offer of a low-fat alternative. Wal-Mart, which received high ratings among our survey participants, is turning itself into the reference company for green by its determination to put a green stamp on the entire life cycle of the products it sells: the raw materials they contain, how they are supplied and transported, how they are displayed in the store, how they are used by the customer, and how they are disposed of.

For example, Wal-Mart can provide farmers with an incentive to produce organic cotton because it is the world’s largest purchaser of this material. The company uses its sourcing clout with packaged-goods suppliers as well, in one instance working with a supplier to make concentrated laundry detergent. That move supported a program to increase the energy efficiency of Wal-Mart’s truck fleet, since concentrated products require smaller packages, which mean more product onboard. In addition, the company is working toward a goal it set in 2005 to reduce greenhouse-gas emissions by 20 percent in seven years at its stores, Sam’s Club locations, and distribution centers. Efforts include such energy-saving steps as installing solar power, LED lighting, and white-membrane roofs. It also tracks customers’ green-shopping habits across products and categories in order to keep on top of what customers want. Finally, Wal-Mart has established a zero-waste goal, which it is realizing by examining its own waste stream and by increasing recycling. Currently the company recycles more than 30 different commodities, including plastic film, prescription bottles, and paperback books, in its “super sandwich bale” process. (See the sidebar “Wal-Mart Leads the Way.”)

5. **Target early wins to build momentum, credibility, and motivation.** When developing a change agenda, it is essential to have the whole team onboard. An easy way to rally the troops is to leverage quick wins. By replacing or retrofitting equipment such as lighting, toilets, electronics, heating and air conditioning systems, and water heaters, companies can demonstrate immediate results—with a return on investment as high as 150 percent in some cases. A national supermarket chain with more than 400 stores saved $12.2 million in one year by retrofitting lighting and installing energy management systems. An office building with leasing revenues of $6 million a year recouped 25 percent of its investment by taking similar measures. These are the kinds of results that inspire employees and boards of directors to begin thinking and going green.

6. **Embed green goals into incentives and reporting structures.** What gets measured gets done. In order to achieve long-term, sustainable success, companies need to transform their goals into specific initiatives and integrate them into their overall reporting structure. Tesco has designed metrics that track such granular data as CO₂ emissions by source. It has also introduced a set of key performance indicators that measure these emissions against specific targets, such as “reduce CO₂-equivalent emissions from our existing stores and distribution centers worldwide by at least 50 percent by 2020” and “restrict air transport to less than 1 percent of our products.”

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**Wal-Mart Leads the Way**

In 2004, when Wal-Mart became the largest private user of electricity in the United States and one of the largest owners of private truck fleets, the company decided to rethink its practices. It wound up initiating a series of highly visible sustainability programs that are driven from the top down. For example, the company recently announced that it will require its suppliers in China to adhere to environmental standards. Over the next two years, Wal-Mart China will open a prototype store that will use 40 percent less energy, and it aims to reduce energy use by 30 percent and water use by 50 percent at all of its stores.

Wal-Mart is counting on its tremendous buying power to keep prices low, even as it demands more from suppliers in terms of quality and standards. It has signaled that it is moving toward longer-term arrangements with a smaller group of suppliers. To ensure that its suppliers are making improvements, the company requires factory audits by both vendors and an outside party, as well as random, unannounced audits by representatives of Wal-Mart itself.

Wal-Mart’s environmental program has resulted in an immense improvement in public relations for the company, and it has also become the foundation of a very profitable sustainability strategy.
Products

7. **Make sure consumers understand why your green product is superior to all the others.** As far back as 1997, Toyota knew that automobile owners would become increasingly concerned about the effect of their driving on the environment. Since then, advertising campaigns for the Prius clearly spell out the hybrid’s environmental benefits as well as the excellence of its engineering. That has made the Prius the world’s most well-known gas-and-electric hybrid vehicle. It is the brand most consumers have in mind when they go shopping for an automobile that will save money on gas, reduce pollution, and announce to the world that they care about the environment.

8. **Get the pricing right.** “Just because it’s a sustainable product doesn’t mean it has to cost more,” says Matt Kistler, senior vice president for sustainability at Wal-Mart. “When buyers come to me expecting an environmentally friendly product to be more expensive than the current one, I tell them they need to ask the right questions. A green product should use less packaging and cost less for transportation. Sustainable products should be the same price or less than the products we are replacing.”

Companies should aim for products that are affordable as well as environmentally friendly. Yet it’s a mistake to jump to the conclusion that consumers won’t pay more for green. If all possible costs have been taken out and the green product is still priced higher, consumers will pay the difference if they value the additional benefits in health or safety. That’s why it’s necessary to make sure that such benefits are communicated as fully as possible.

Promotion

9. **Direct green efforts from the top and get buy-in from key stakeholders.** “What I thought was going to be a defensive strategy is turning out to be precisely the opposite,” says Wal-Mart’s CEO, Lee Scott, on the greening of the company. Scott has become the public face of Wal-Mart’s 2005 commitment to cut greenhouse-gas emissions at its stores by 20 percent by 2012, double the fuel efficiency of its truck fleet by 2015, reduce solid waste in its U.S. stores by 25 percent in the next three years, and sell organic food at prices its custom-

ers can afford. By staking their own names and reputations on these promises, Wal-Mart’s leaders have overcome a good deal of skepticism about how serious the world’s largest retailer is about protecting the environment.

10. **Be consistent in order to be credible.** Goals, actions, and messages must have a common underlying vision. General Electric never misses an opportunity to send out messages about its “ecomagination” efforts through TV and print ads, conferences and trade shows, press releases and magazine articles, sustainability reports, podcasts, educational online games, and a dedicated Web site. It also measures the effectiveness of each medium and knows which channels have the greatest impact.
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